

Eco-Shop Marketing (ECOSHOP MK)

Earnings Surprise But Downgrade Following Good Run

- Earnings came in ahead of expectations off a positive outlook on sustained margins.
- Sharp SSSG contraction has been offset by increased store count and improved margins.
- Downgrade to HOLD as the stock has performed admirably well, gaining 37% since its IPO in May – largely pricing in macro catalysts. Raise target price to RM1.70 from RM1.65 in tandem with revised earnings.

1QFY26 Results

Year to 31 May (RMm)	1QFY26	qoq % chg	yoy % chg	Comments
Revenue	684.3	-0.7	2.5	1QFY26 SSSG of -12.7% was more than offset by increased store count.
GP	217.6	-1.1	28.5	Uplift from improved gross margins.
EBITDA	121.7	12.4	38.7	
PBT	80.2	17.7	50.0	
Profit	58.8	18.9	48.4	
Core PATAMI	58.8	5.0	48.4	Above expectations as enhanced margins more than offset SSSG weakness.
Margins (%)		qoq ppt chg	yoy ppt chg	
Gross Profit	31.8	-0.1	6.4	Margin uplift following: price exercise, favourable product mix and stronger ringgit.
EBITDA	17.8	2.1	4.6	Gains in gross margin partially offset by higher wages, electricity tariff and ESOS cost.
Eff. tax rate	-26.7	0.8	-0.8	
Core Profit	8.6	0.5	2.7	

Source: Eco-Shop Marketing, UOB Kay Hian

Analysis

- Above expectations.** Eco-Shop Marketing (Eco-Shop) registered a 1QFY26 core profit of RM58.8m (48.4% yoy, 5.0% qoq). Although this represents 24% of both our and consensus full-year forecasts, results were above expectations, driven by sustained gross margin improvement and a gradual recovery in same-store sales growth (SSSG), which should lift full-year earnings beyond current projections. Eco-Shop also declared an interim dividend of 0.5 sen per share, marking the start of its commitment to quarterly dividend payouts.

Key Financials

Year to 31 May (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	2,404.0	2,787.5	3,229.8	4,179.3	4,901.1
EBITDA	316.8	376.7	456.2	543.1	659.8
Operating profit	213.3	253.8	313.0	368.3	420.4
Net profit (rep./act.)	177.3	212.4	258.1	300.3	338.9
Net profit (adj.)	177.3	212.4	258.1	300.3	338.9
EPS	3.3	3.7	4.5	5.2	5.9
PE	47.2	41.9	34.5	29.7	26.3
P/B	15.2	9.0	8.1	7.3	6.5
EV/EBITDA	26.7	22.5	18.3	16.3	13.4
Dividend yield	1.2	1.7	1.6	2.0	2.3
Net margin	7.4	7.6	8.0	7.2	6.9
Net debt/(cash) to equity	13.4	10.4	(2.3)	38.1	34.7
Interest cover	14.7	15.3	21.7	14.9	13.4
ROE	23.0	20.3	23.3	25.8	27.5
Consensus net profit	n.a	n.a	254.4	307.2	357.0
UOBKH/Consensus (x)	n.a	n.a	1.0	1.0	1.0

HOLD (Downgraded)

Share Price	RM1.55
Target Price	RM1.70
Upside	9.5%

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Stock Data

GICS Sector	Consumer Discretionary
Bloomberg ticker	ECOSHOP MK
Shares issued (m)	5,749.0
Market cap (RMm)	9,141.0
Market cap (US\$m)	2,162.7
3-mth avg daily t'over (US\$m)	4.1

Price Performance (%)

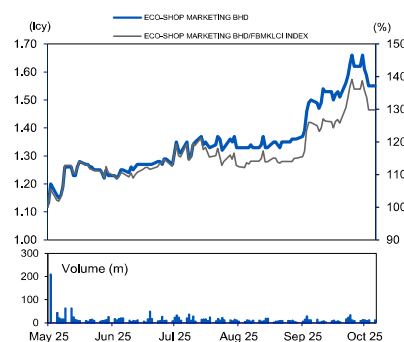
52-week high/low RM1.66/RM1.13

1mth	3mth	6mth	1yr	YTD
14.4	17.8	n.a	n.a	n.a

Major Shareholders

	%
Dato' Sri Lee	75.9
FY25 NAV/Share (RM)	0.19
FY25 Net Debt/Share (RM)	0.00

Price Chart



Source: Bloomberg

Company Description

Eco-Shop is Malaysia's leading fixed-price retailer, offering affordable everyday essentials through a fast-growing nationwide store network.

- **Growth despite SSSG weakness.** 1QFY26 revenue grew 2.5% yoy (-0.7% qoq), as a 12.7% yoy SSSG contraction was offset by a higher store count. The sharp SSSG drop is attributed to a myriad of factors: a) weak consumer sentiment, b) intense price competition, c) price adjustment impact, and d) high base effect (comparable quarter had a strong double-digit growth). October sales appear to have improved but management expects SSSG softness to persist over the immediate term before turning positive in 4QFY26. We lower our FY26 SSSG assumption to -6.0% from 1.5% as a result.
- **Limited MyKasih exposure.** Of its 391 outlets, 161 are participating under the MyKasih programme, offering approximately 2,000 SKUs primarily comprising food, household cleaning, and stationery products. Nonetheless, MyKasih-related sales currently account for only about 0.3% of total revenue. Accordingly, there is limited upside to Eco-Shop benefitting from the MyKasih initiative.
- **Sustained gross margin expansion.** 1QFY26 gross margin expanded 6.4ppt yoy (-0.1ppt qoq) to 31.8% following its price exercise in Apr 25, a favourable product mix and the strengthening of the ringgit vs the renminbi. While encouraging, management indicated there is further limited upside to gross margins.
- **Core margins slightly tempered but provide major lift to earnings.** In terms of operating margins, gains were slightly tempered to 4.6ppt yoy (+2.1ppt qoq). The yoy increase in overhead expenses was driven by higher minimum wages, electricity tariffs and employee share options costs. Positively, sequential improvement is due to the right-sizing of its workforce, which improved operational efficiency at its store-level. Core PAT margins were tempered a little further to 2.7ppt yoy (+0.5ppt qoq) following higher interest expenses and effective tax rates. Nevertheless, core PAT grew 48.4% yoy largely off expanded margins.

Valuation/Recommendation

- **Downgrade to HOLD but with a higher target price of RM1.70** (from RM1.65) following our revision in earnings. Eco-Shop has performed admirably, gaining 37% since its IPO in May. Robust consumer sentiment was aided by the MyKasih handouts and the Visit Malaysia 2026 theme; retailers across the sector have re-rated meaningfully — we believe Eco-Shop is now fairly valued. Hence, we take this opportunity to downgrade to HOLD.
- We value Eco-Shop at 34.5x FY26F PE, which is the average of our valuation for 99SM (38.9x) and Mr. DIY (30.0x). However, 99SM does deserve a valuation premium given its index-linked status and superior capital efficiency. Eco-Shop merits a premium to Mr. DIY driven by its more compelling growth trajectory from a significantly lower store base.

Earnings Revision/Risk

- We lift our FY26-28 earnings forecasts by 4% following higher margin assumptions that more than offset lower SSSG estimates. Key risks include the strengthening of the renminbi against the ringgit and a sharp deterioration in consumer sentiment.

Margin Assumptions

	FY26F	FY27F	FY28F
Avg. base ASP (RM)	2.60	2.63	2.70
Gross margin (%)	31.0	30.5	30.9
Operating margin (%)	16.0	14.8	15.3

Source: Eco-Shop, UOB Kay Hian

Growth And Margin Outlook

	FY25F	FY26F	FY27F
Revenue (RMm)	3230	4179	4901
Growth yoy (%)	15.9	29.4	17.3
Store count	452	522	592
Growth yoy (%)	23.2	18.3	14.4
PAT (RMm)	258	300	339
Growth yoy (%)	21.5	16.4	12.9
3-year CAGR (%)	17.5	20.2	20.7
Gross Margin (%)	31.0	30.5	30.9
EBIT Margin (%)	11.5	10.7	10.4
PAT Margin (%)	8.0	7.2	6.9

Source: Eco-Shop, UOB Kay Hian

Environmental, Social, Governance (ESG)

Environmental

- **Energy & emission efficiency.** Eco-Shop achieved a 2.5% reduction in emission intensity in FY24, lowering it from 24.63 to 24.02 tCO2e per million revenue in ringgit, even as store count grew from 240 to 297. LED lighting and passive architectural designs at key distribution centres drive energy conservation.

Social

- **Workplace safety & inclusion.** Eco-Shop has established a Health and Safety Committee and an OSHA committee that meets quarterly. These bodies oversee safety training, risk audits, and workplace wellness for its over 6,000 employees across operations.

Governance

- **ESG oversight and independent validation.** While Eco-Shop has not yet received external ESG certification, its sustainability disclosures are incorporated in the IPO prospectus. Financial data, including ESG-linked reporting elements, has been reviewed and assured by PricewaterhouseCoopers (PwC) as part of its reasonable assurance report on the pro forma financials submitted to the Securities Commission Malaysia.

Source: Eco-Shop, UOB Kay Hian

Profit & Loss

Year to 31 May (RMm)	2025	2026F	2027F	2028F
Net turnover	2,788	3,230	4,179	4,901
EBITDA	377	456	543	660
Deprec. & amort.	123	143	175	239
EBIT	254	313	368	420
Total other non-operating income	52	60	77	91
Associate contributions	0	0	0	0
Net interest income/(expense)	(25)	(21)	(36)	(49)
Pre-tax profit	281	352	409	462
Tax	(77)	(94)	(109)	(123)
Minorities	0	0	0	0
Net profit	212	258	300	339
Net profit (adj.)	212	258	300	339

Balance Sheet

Year to 31 May (RMm)	2025	2026F	2027F	2028F
Fixed assets	812	1,031	1,512	1,520
Other LT assets	143	29	29	29
Cash/ST investment	21	124	57	51
Other current assets	874	1,008	1,272	1,497
Total assets	1,851	2,192	2,871	3,097
ST debt	124	99	99	99
Other current liabilities	371	352	455	524
LT debt	0	0	425	425
Other LT liabilities	366	635	666	687
Shareholders' equity	990	1,106	1,226	1,361
Minority interest	0	0	0	0
Total liabilities & equity	1,851	2,192	2,871	3,097

Cash Flow

Year to 31 May (RMm)	2025	2026F	2027F	2028F
Operating	319	227	295	413
Pre-tax profit	289	352	409	462
Tax	(72)	(94)	(109)	(123)
Deprec. & amort.	123	143	175	239
Associates	0	0	0	0
Working capital changes	(21)	(173)	(179)	(164)
Other operating cashflows	1	(1)	(1)	(2)
Investing	(520)	(89)	(509)	(99)
Capex (growth)	(118)	(90)	(510)	(101)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(402)	1	1	2
Financing	166	(35)	147	(320)
Dividend payments	(150)	(142)	(180)	(203)
Issue of shares	420	0	0	0
Proceeds from borrowings	0	200	0	0
Loan repayment	0	0	425	0
Others/interest paid	(103)	(93)	(98)	(116)
Net cash inflow (outflow)	(34)	103	(67)	(6)
Beginning cash & cash equivalent	55	21	124	57
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	21	124	57	51

Key Metrics

Year to 31 May (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	13.5	14.1	13.0	13.5
Pre-tax margin	10.1	10.9	9.8	9.4
Net margin	7.6	8.0	7.2	6.9
ROA	10.5	11.8	11.9	12.8
ROE	20.3	23.3	25.8	27.5
Growth				
Turnover	(13.7)	15.9	49.9	75.8
EBITDA	(17.4)	21.1	44.2	75.2
Pre-tax profit	(20.2)	25.3	45.8	64.5
Net profit	(17.7)	21.5	41.4	59.6
Net profit (adj.)	19.8	21.5	16.4	12.9
EPS	(17.7)	21.5	41.4	59.6
Leverage				
Debt to total capital	12.5	8.9	42.7	38.5
Debt to equity	12.5	8.9	42.7	38.5
Net debt/(cash) to equity	10.4	(2.3)	38.1	34.7
Interest cover	15.3	21.7	14.9	13.4

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